
Muni Yields Hit Lowest Since 1952 as Fiscal Crisis Tests a Haven.

- **Budget crisis for states, cities seen worse than 2008**
- **'The market is very complacent,' Deutsche Bank's Pollack says**

America's municipal bondholders have never been paid so little for taking on so much risk.

The yields on state and local government bonds have steadily dwindled over the past month, even as the resurgent coronavirus pandemic is threatening to prolong the deep recession that's dealing a financial setback to borrowers in virtually every corner of the $3.9 trillion market.

The oldest gauge of municipal yields, the Bond Buyer index of those on 20-year general-obligation bonds, now stands at 2.09%, the lowest since 1952. The Bloomberg 10-year benchmark slipped below 0.6% on Wednesday, the least since at least 2011. And MMD's measure of 30-year yields has dropped to the lowest since it was started in 1982, according to Greg Saulnier, a managing analyst at Refinitiv.

The disappearing yields aren't unique to the municipal market. With the Federal Reserve injecting cash into the financial markets to stoke the economy, those on corporate bonds, mortgages and U.S. Treasuries have tumbled, too.

But the drop in the municipal market is leaving investors receiving far less compensation than they did when the Fed cut rates near zero after the last recession, even though the current rout is projected to drive states and cities into what may be the biggest budget crisis in memory. Many bonds have been issued for ventures like hotels, stadiums, airports and public transit systems that are also highly sensitive to the downturn.

Yet investors appear to expect municipal bonds will continue to remain one of the world's safest investments, given how rare defaults are by governments that can raise taxes or by agencies seen as too vital to fail.

Moody's Investors Service said in a report last month that it didn't expect bonds that it rates to default in 2020 due to the pandemic, aside from the two small borrowers that had done so already. That suggests the lapses, at least for now, will be confined to riskier borrowers that forgo credit ratings to avoid the stigma of being labeled junk.

Gary Pollack, head of fixed income for private wealth management at Deutsche Bank, said investors' confidence reflects how municipalities have weathered crises like the last recession, when defaults and bankruptcies remained rare.

While municipal bonds recorded a loss of 2.5% in 2008, they rebounded with a nearly 13% gain in 2009, according to Bloomberg Barclays indexes.

"Having lived through the 2008 crisis, the market is more comfortable with muni credits in general," Pollack said.

Still, he thinks the pandemic may be tougher on municipal credits than the 2008 downturn was. “The market is very complacent, I would say, with how municipalities will get through this,” he said.

Wall Street analysts have also been confident that Congress will extend large amounts of aid to states and cities, a prospect that’s now uncertain in the face of opposition from President Donald Trump.

Some firms have started warning that the plan could fall short. Barclays Plc strategists said in a report on Tuesday that the package is likely to be $1.5 trillion or less given the divisions between Democrats and Republicans, “which would leave state and local governments with less money than the market initially projected.”

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